

WAYNE COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2007

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Wayne Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2006 Election)</b>		
Douglas Downs	President	2007
Melissa Niday	Vice President	2006
Susan Henderson	Board Member	2006
Dave Foster	Board Member	2008
Bill Homann	Board Member	2008
<b>Board of Education (After September 2006 Election)</b>		
Douglas Downs	President	2007
Bill Homann	Vice President	2008
Dave Foster	Board Member	2008
Darrell Clark	Board Member	2009
Melissa Niday	Board Member	2009
<b>School Officials</b>		
Robert Busch	Superintendent	2007
Denise Larson	District Secretary/Treasurer and Business Manager	2007
Sue Seitz	Attorney	2007
Alan Wilson	Attorney	2007

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

### **INDEPENDENT AUDITOR'S REPORT**

To the Board of Education of the  
Wayne Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Wayne Community School District, Corydon, Iowa as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Wayne Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 6, 2008 on our consideration of the Wayne Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Members American Institute & Iowa Society of Certified Public Accountants

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 33 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Wayne Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 6, 2008

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Wayne Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,221,134 in fiscal 2006 to \$5,269,585 in fiscal 2007, while General Fund expenditures increased from \$5,128,663 in fiscal 2006 to \$5,692,278 in fiscal 2007. This resulted in a decrease in the District's General Fund balance from \$976,647 in fiscal 2006 to a balance of \$555,594 in fiscal 2007, a 43.11% decrease from the prior year.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Wayne Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Wayne Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Wayne Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**  
**Wayne Community School District Annual Financial Report**

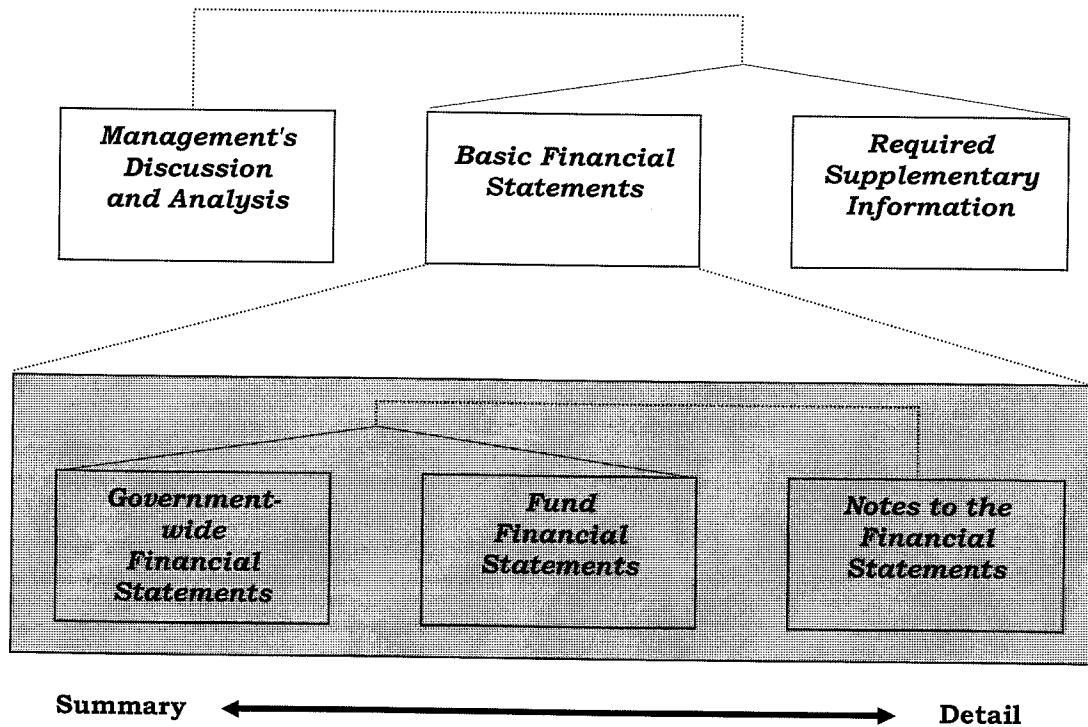


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2</b> <b>Major Features of the Government-wide and Fund Financial Statements</b>			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid



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## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 5,358,652	5,864,469	23,567	33,822	5,382,219	5,898,291	-8.75%
Capital assets	4,025,233	3,638,433	35,723	36,534	4,060,956	3,674,967	10.50%
Total assets	9,383,885	9,502,902	59,290	70,356	9,443,175	9,573,258	-1.36%
Long-term liabilities	1,304,750	1,517,365	0	0	1,304,750	1,517,365	-14.01%
Other liabilities	4,107,067	4,166,158	20,711	19,157	4,127,778	4,185,315	-1.37%
Total liabilities	5,411,817	5,683,523	20,711	19,157	5,432,528	5,702,680	-4.74%
Net assets:							
Invested in capital assets, net of related debt	2,720,483	2,187,628	35,723	36,534	2,756,206	2,224,162	23.92%
Restricted	587,056	560,645	0	0	587,056	560,645	4.71%
Unrestricted	664,529	1,071,106	2,856	14,665	667,385	1,085,771	-38.53%
Total net assets	\$ 3,972,068	3,819,379	38,579	51,199	4,010,647	3,870,578	3.62%

The District's combined net assets increased by 3.62 %, or \$140,069, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$26,411, or 4.71% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$418,386, or 38.53%. This decrease in unrestricted net assets was a result of the District decrease in the General Fund.

Figure A-4 shows the changes in net assets for the years ended June 30, 2007 and 2006.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 374,313	310,043	107,741	106,247	482,054	416,290	15.80%
Operating grants and contributions and restricted interest	1,083,766	866,576	168,653	159,189	1,252,419	1,025,765	22.10%
General revenues:							
Property tax	2,104,389	2,274,188	0	0	2,104,389	2,274,188	-7.47%
Local option sales and services tax	325,712	284,465	0	0	325,712	284,465	14.50%
Unrestricted state grants	2,159,642	2,165,397	0	0	2,159,642	2,165,397	-0.27%
Other	113,267	118,163	1,005	227	114,272	118,390	-3.48%
Transfers	(5,735)	(34,913)	5,735	34,913	0	0	0.00%
Total revenues	6,155,354	5,983,919	283,134	300,576	6,438,488	6,284,495	2.45%
Program expenses:							
Governmental activities:							
Instructional	4,043,795	3,593,244	0	0	4,043,795	3,593,244	12.54%
Support services	1,636,246	1,567,018	0	0	1,636,246	1,567,018	4.42%
Non-instructional programs	0	0	295,754	278,441	295,754	278,441	6.22%
Other expenses	322,624	320,762	0	0	322,624	320,762	0.58%
Total expenses	6,002,665	5,481,024	295,754	278,441	6,298,419	5,759,465	9.36%
Change in net assets	152,689	502,895	(12,620)	22,135	140,069	525,030	-73.32%
Beginning net assets	3,819,379	3,316,484	51,199	29,064	3,870,578	3,345,548	15.69%
Ending net assets	\$ 3,972,068	3,819,379	38,579	51,199	4,010,647	3,870,578	3.62%

In fiscal 2007, property tax and unrestricted state grants account for 69.27% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 97.62% of the revenue from business type activities.

The District's total revenues were approximately \$6.44 million of which \$6.16 million was for governmental activities and less than \$0.28 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 2.45% increase in revenues and a 9.36% increase in expenses. Local option sales and services tax increased \$41,247 to fund increases in expenditures. The increase in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

### Governmental Activities

Revenues for governmental activities were \$6,155,354 and expenses were \$6,002,665.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change	2007	2006	Change
			2006-07			2006-07
Instruction	\$ 4,043,795	3,593,244	12.54%	2,768,853	2,594,130	6.74%
Support services	1,636,246	1,567,018	4.42%	1,636,246	1,567,018	4.42%
Other expenses	322,624	320,762	0.58%	139,487	143,257	-2.63%
Totals	<u>\$ 6,002,665</u>	<u>5,481,024</u>	<u>9.52%</u>	<u>4,544,586</u>	<u>4,304,405</u>	<u>5.58%</u>

- The cost financed by users of the District's programs was \$374,313.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,083,766.
- The net cost of governmental activities was financed with \$2,104,389 in property tax, \$325,712 in local option sales and services tax, \$2,159,642 in unrestricted state grants, and \$105,324 in interest income.

### Business-Type Activities

Revenues of the District's business-type activities were \$283,134 and expenses were \$295,754. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## INDIVIDUAL FUND ANALYSIS

As previously noted, the Wayne Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,138,050, below last year's ending fund balances of a \$1,607,413. However, the primary reason for the decrease in combined fund balances in fiscal 2007 is the decrease in the General Fund balance.

### Governmental Fund Highlights

- The District's deteriorating General Fund financial position from \$976,647 to \$555,594 is the product of many factors:
  - The District received less in local tax revenues during the year.
  - The increase in expenditures was due to the increase in regular instruction, administration services, and operation and maintenance of plant services expenditures.
- The Capital Projects Fund balance decreased from \$288,178 in fiscal 2006 to \$193,356 in fiscal 2007. Expenditures exceeded revenues for the year, which guaranteed the fund's decrease.

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## Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$51,199 at June 30, 2006 to \$38,579 at June 30, 2007, representing a decrease of 24.65%. This was mostly attributable to an increase in expenditures during the year ended 2007.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$209,699 less than budgeted revenues, a variance of 3.16%. The most significant variance resulted from the District receiving less in state source revenues than originally anticipated.

Total expenditures were more than budgeted, primarily due to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should normally exceed actual expenditures for the year.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2007, the District had invested \$4,060,956, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 9.5% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$207,155.

The original cost of the District's capital assets was \$11.4 million. Governmental funds account for \$11.23 million with the remainder of \$0.17 million in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$17,058 at June 30, 2006, compared to \$349,653 reported at June 30, 2007. The increase was caused by costs accumulated as of June 30, 2007 for window replacement projects on the District's buildings.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 22,500	22,500	0	0	22,500	22,500	0.00%
Construction in progress	349,653	17,058	0	0	349,653	17,058	95.12%
Buildings	3,153,357	3,173,745	0	0	3,153,357	3,173,745	-0.65%
Land improvements	34,999	37,698	0	0	34,999	37,698	-7.71%
Machinery and equipment	464,724	387,432	35,723	36,534	500,447	423,966	15.28%
Total	\$ 4,025,233	3,638,433	35,723	36,534	4,060,956	3,674,967	9.50%

### Long-Term Debt

At June 30, 2007, the District had \$1,304,750 in general obligation and other long-term debt outstanding. This represents a decrease of 14% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding General obligation bonds payable of \$1,295,000 at June 30, 2007.

The District had total outstanding Loan payable from the Special Revenue – Physical Plant and Equipment Levy Fund of \$9,750 at June 30, 2007.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2007	2006	2006-07
General obligation bonds	\$ 1,295,000	1,495,000	-13.4%
Loan	9,750	17,550	-44.4%
Early retirement	0	4,815	-100.0%
Totals	\$ 1,304,750	1,517,365	-14.0%

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District has experienced declining enrollment for several years. Even though the District's enrollment increased in fiscal year 2007, the District projections show continued enrollment decreases in the future.
- The budget guarantee (whereby District's are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten year period beginning in fiscal year 2004.
- The voters of Wayne County passed by 86% the Local Option Sales and Service Tax (SILO) for school infrastructure. This one cent tax on sales and services will greatly benefit the District in maintaining their buildings and purchasing equipment. The funding began in September 2004.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Denise Larson, District Secretary/Treasurer and Business Manager, Wayne Community School District, 102 North DeKalb, Corydon, Iowa, 50060.

BASIC FINANCIAL STATEMENTS

WAYNE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments:			
ISCAP(Note 4)	\$ 1,367,172	0	1,367,172
Other	1,441,452	19,766	1,461,218
Receivables:			
Property tax:			
Delinquent	49,474	0	49,474
Succeeding year	2,022,465	0	2,022,465
Income surtax	117,107	0	117,107
Accounts	4,900	0	4,900
Accrued ISCAP interest(Note 4)	51,109	0	51,109
Due from other governments	304,973	0	304,973
Inventories	0	3,801	3,801
Capital assets, net of accumulated depreciation(Note 5)	4,025,233	35,723	4,060,956
<b>TOTAL ASSETS</b>	<b>9,383,885</b>	<b>59,290</b>	<b>9,443,175</b>
<b>LIABILITIES</b>			
Accounts payable	153,575	1,025	154,600
Salaries and benefits payable	486,071	17,679	503,750
Interest payable	3,572	0	3,572
ISCAP warrants payable(Note 4)	1,370,000	0	1,370,000
ISCAP interest payable(Note 4)	44,807	0	44,807
ISCAP unamortized premiums	7,296	0	7,296
Deferred revenue:			
Succeeding year property tax	2,022,465	0	2,022,465
Other	19,281	2,007	21,288
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds payable	200,000	0	200,000
Loan payable	7,800	0	7,800
Portion due after one year:			
General obligation bonds payable	1,095,000	0	1,095,000
Loan payable	1,950	0	1,950
<b>TOTAL LIABILITIES</b>	<b>5,411,817</b>	<b>20,711</b>	<b>5,432,528</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	2,720,483	35,723	2,756,206
Restricted for:			
Additional professional development	11	0	11
Market factor	4,589	0	4,589
Management levy	210,924	0	210,924
Other special revenue purposes	65,815	0	65,815
Physical plant and equipment levy	62,175	0	62,175
Capital projects	193,356	0	193,356
Debt service	50,186	0	50,186
Unrestricted	664,529	2,856	667,385
<b>TOTAL NET ASSETS</b>	<b>\$ 3,972,068</b>	<b>38,579</b>	<b>4,010,647</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.



WAYNE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2007

	Program Revenues			Net (Expense) Revenue		Total
	Expenses	Charges for Services	Contributions and Restricted Interest	Govern-mental Activities	Business-Type Activities	
<b>Functions/Programs</b>						
Governmental activities:						
Instruction:						
Regular instruction	\$ 2,364,666	353,079	706,734	(1,304,853)	0	(1,304,853)
Special instruction	891,771	21,234	30,897	(839,640)	0	(839,640)
Other instruction	787,358	0	162,998	(624,360)	0	(624,360)
	4,043,795	374,313	900,629	(2,768,853)	0	(2,768,853)
Support services:						
Student services	73,139	0	0	(73,139)	0	(73,139)
Instructional staff services	101,702	0	0	(101,702)	0	(101,702)
Administration services	607,967	0	0	(607,967)	0	(607,967)
Operation and maintenance of plant services	574,149	0	0	(574,149)	0	(574,149)
Transportation services	279,289	0	0	(279,289)	0	(279,289)
	1,636,246	0	0	(1,636,246)	0	(1,636,246)
Other expenditures:						
Long-term debt interest	47,480	0	0	(47,480)	0	(47,480)
AEA flowthrough	183,137	0	183,137	0	0	0
Depreciation(unallocated)*	92,007	0	0	(92,007)	0	(92,007)
	322,624	0	183,137	(139,487)	0	(139,487)
Total governmental activities	6,002,665	374,313	1,083,766	(4,544,586)	0	(4,544,586)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	295,754	107,741	168,653	0	(19,360)	(19,360)
Total business-type activities	295,754	107,741	168,653	0	(19,360)	(19,360)
Total	\$ 6,298,419	482,054	1,252,419	(4,544,586)	(19,360)	(4,563,946)
<b>General Revenues and Transfers:</b>						
Local tax for:						
General purposes				\$ 1,867,614	0	1,867,614
Capital outlay				41,570	0	41,570
Debt service				195,205	0	195,205
Local option sales and services tax				325,712	0	325,712
Unrestricted state grants				2,159,642	0	2,159,642
Unrestricted investment earnings				105,324	1,005	106,329
Other general revenue				7,943	0	7,943
Transfers				(5,735)	5,735	0
Total general revenues and transfers				4,697,275	6,740	4,704,015
Change in net assets				152,689	(12,620)	140,069
Net assets beginning of year				3,819,379	51,199	3,870,578
Net assets end of year				\$ 3,972,068	38,579	4,010,647

\* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

WAYNE COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007

	General	Other Nonmajor Governmental Funds	Total
<b>ASSETS</b>			
Cash and pooled investments:			
ISCAP(Note 4)	\$ 1,367,172	0	1,367,172
Other	1,002,510	438,942	1,441,452
Receivables:			
Property tax			
Delinquent	40,996	8,478	49,474
Succeeding year	1,659,142	363,323	2,022,465
Income surtax	117,107	0	117,107
Accounts	4,900	0	4,900
Accrued ISCAP interest(Note 4)	51,109	0	51,109
Due from other governments	167,909	137,064	304,973
<b>TOTAL ASSETS</b>	<b>\$ 4,410,845</b>	<b>947,807</b>	<b>5,358,652</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 151,547	2,028	153,575
Salaries and benefits payable	486,071	0	486,071
ISCAP warrants payable(Note 4)	1,370,000	0	1,370,000
ISCAP interest payable(Note 4)	44,807	0	44,807
ISCAP unamortized premiums	7,296	0	7,296
Deferred revenue:			
Succeeding year property tax	1,659,142	363,323	2,022,465
Income surtax	117,107	0	117,107
Other	19,281	0	19,281
<b>Total liabilities</b>	<b>3,855,251</b>	<b>365,351</b>	<b>4,220,602</b>
Fund balances:			
Reserved for:			
Debt service	0	50,186	50,186
Additional professional development	11	0	11
Market factor	4,589	0	4,589
Unreserved:			
Undesignated:			
General	550,994	0	550,994
Management levy	0	210,924	210,924
Other special revenue purposes	0	65,815	65,815
Physical plant and equipment levy	0	62,175	62,175
Capital projects	0	193,356	193,356
<b>Total fund balances</b>	<b>555,594</b>	<b>582,456</b>	<b>1,138,050</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 4,410,845</b>	<b>947,807</b>	<b>5,358,652</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

WAYNE COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2007

Total fund balances of governmental funds (page 15)	\$ 1,138,050
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	4,025,233
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	117,107
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(3,572)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(1,304,750)
Net assets of governmental activites (page 13)	\$ <u><u>3,972,068</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

WAYNE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2007

	General	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>			
Local sources:			
Local tax	\$ 1,745,415	662,431	2,407,846
Tuition	331,080	0	331,080
Other	127,704	206,819	334,523
State sources	2,605,909	0	2,605,909
Federal sources	459,477	0	459,477
Total revenues	5,269,585	869,250	6,138,835
<b>EXPENDITURES:</b>			
Current:			
Instruction:			
Regular instruction	2,402,600	4,815	2,407,415
Special instruction	891,771	0	891,771
Other instruction	614,731	172,627	787,358
	3,909,102	177,442	4,086,544
Support services:			
Student services	73,139	0	73,139
Instructional staff services	139,379	0	139,379
Administration services	607,967	0	607,967
Operation and maintenance of plant services	497,122	81,090	578,212
Transportation services	282,432	0	282,432
	1,600,039	81,090	1,681,129
Other expenditures:			
Facilities acquisitions	0	403,365	403,365
Long-term debt:			
Principal	0	207,800	207,800
Interest and fiscal charges	0	47,863	47,863
AEA flowthrough	183,137	0	183,137
	183,137	659,028	842,165
Total expenditures	5,692,278	917,560	6,609,838
Deficiency of revenues under expenditures	(422,693)	(48,310)	(471,003)
Other financing sources(uses):			
Sale of equipment	1,640	0	1,640
Transfers in	0	57,800	57,800
Transfers out	0	(57,800)	(57,800)
Total other financing sources(uses)	1,640	0	1,640
Net change in fund balances	(421,053)	(48,310)	(469,363)
Fund balance beginning of year	976,647	630,766	1,607,413
Fund balance end of year	\$ 555,594	582,456	1,138,050

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

WAYNE COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds (page 17) \$ (469,363)

*Amounts reported for governmental activities in the  
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the current year are as follows:

Expenditures for capital assets	\$ 585,903	
Depreciation expense	<u>(199,103)</u>	386,800

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.	207,800
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	383
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Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds.	22,254
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	
Early Retirement	<u>4,815</u>

Changes in net assets of governmental activities (page 14)	<u>\$ 152,689</u>
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SEE NOTES TO BASIC FINANCIAL STATEMENTS.

WAYNE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2007

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 19,766
Inventories	3,801
Capital assets, net of accumulated depreciation(Note 5)	<u>35,723</u>
TOTAL ASSETS	<u>59,290</u>
LIABILITIES	
Accounts payable	1,025
Salaries and benefits payable	17,679
Deferred revenues:	
Other	<u>2,007</u>
TOTAL LIABILITIES	<u>20,711</u>
NET ASSETS	
Investment in capital assets	35,723
Unrestricted	<u>2,856</u>
TOTAL NET ASSETS	<u>\$ 38,579</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

WAYNE COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 PROPRIETARY FUND  
 YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 107,741
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	94,155
Benefits	39,301
Services	7,681
Supplies	146,227
Depreciation	8,052
Other	338
TOTAL OPERATING EXPENSES	<u>295,754</u>
OPERATING LOSS	<u>(188,013)</u>
NON-OPERATING REVENUES:	
State sources	3,567
Federal sources	165,086
Interest on investments	1,005
TOTAL NON-OPERATING REVENUES	<u>169,658</u>
Net loss before other financing sources	(18,355)
OTHER FINANCING SOURCES:	
Contributed capital	<u>5,735</u>
Change in net assets	(12,620)
Net assets beginning of year	<u>51,199</u>
Net assets end of year	<u><u>\$ 38,579</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

WAYNE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 109,282
Cash received from miscellaneous sources	1,322
Cash payments to employees for services	(133,024)
Cash payments to suppliers for goods or services	(141,344)
Net cash used in operating activities	<u>(163,764)</u>
Cash flows from non-capital financing activities:	
State grants received	3,567
Federal grants received	151,723
Net cash provided by non-capital financing activities	<u>155,290</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	<u>(1,506)</u>
Cash flows from investing activities:	
Interest on investments	<u>1,005</u>
Net decrease in cash and cash equivalents	(8,975)
Cash and cash equivalents at beginning of year	<u>28,741</u>
Cash and cash equivalents at end of year	<u><u>\$ 19,766</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (188,013)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	13,363
Depreciation	8,052
Decrease in accounts receivable	1,280
Decrease in accounts payable	(461)
Increase in salaries and benefits payable	432
Increase in deferred revenue	1,583
Net cash used in operating activities	<u><u>\$ (163,764)</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u><u>\$ 19,766</u></u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$13,363.

During the year ended June 30, 2007, the District received \$5,735 in capital contributions from General Fund.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.



WAYNE COMMUNITY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2007

**(1) Summary of Significant Accounting Policies**

The Wayne Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Corydon, Iowa, and the predominate agricultural territory in Wayne and Lucas Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Wayne Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Wayne Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Wayne and Lucas Counties Assessors' Conference Board.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The District reports the following nonmajor proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

#### C. Measurement Focus and Basis of Accounting

The government-wide and proprietary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balance

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balance - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007 expenditures did not exceed budgeted amounts.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 31,235</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

(3) **Transfers**

The detail of transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue - Physical Plant and Equipment Levy	\$ 7,800
Debt Service	Capital Projects	50,000
		<u>\$ 57,800</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

**(4) Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07A	6/28/06	6/28/07	\$ 0	36,583	0	31,545
2006-07B	1/26/07	1/25/08	682,256	14,321	684,000	13,087
2007-08A	6/28/07	6/27/08	684,916	205	686,000	175
Total			<u>\$ 1,367,172</u>	<u>51,109</u>	<u>1,370,000</u>	<u>44,807</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2007 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2006-07A	\$ 0	471,000	471,000	0
2006-07B	0	200,000	200,000	0
Total	<u>\$ 0</u>	<u>671,000</u>	<u>671,000</u>	<u>0</u>

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.500%	5.676%
2006-07B	4.250%	5.315%
2007-08A	4.500%	5.455%

**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 22,500	0	0	22,500
Construction in progress	17,058	332,595	0	349,653
Capital assets not being depreciated:	39,558	332,595	0	372,153
Capital assets being depreciated:				
Buildings	7,589,300	67,170	0	7,656,470
Land improvements	261,979	1,750	0	263,729
Machinery and equipment	2,749,862	184,388	0	2,934,250
Total capital assets being depreciated	10,601,141	253,308	0	10,854,449
Less accumulated depreciation for:				
Buildings	4,415,555	87,558	0	4,503,113
Land improvements	224,281	4,449	0	228,730
Machinery and equipment	2,362,430	107,096	0	2,469,526
Total accumulated depreciation	7,002,266	199,103	0	7,201,369
Total capital assets being depreciated, net	3,598,875	54,205	0	3,653,080
Governmental activities capital assets, net	\$ 3,638,433	386,800	0	4,025,233



	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 166,484	7,241	0	173,725
Less accumulated depreciation	129,950	8,052	0	138,002
Business-type activities capital assets, net	\$ 36,534	(811)	0	35,723

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 43,150
Support services:		
Instructional staff		46,702
Operation and maintenance of plant		1,462
Transportation		15,782
		107,096
Unallocated depreciation		92,007
Total governmental activities depreciation expense		\$ 199,103
Business-type activities:		
Food services		\$ 8,052

#### (6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 1,495,000	0	200,000	1,295,000	200,000
Loan payable	17,550	0	7,800	9,750	7,800
Early retirement	4,815	0	4,815	0	0
Total	\$ 1,517,365	0	212,615	1,304,750	207,800

#### General Obligation Bonds Payable

Details of the District's June 30, 2007 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Interest Rates	Bond issue of May 1, 2003		
		Principal	Interest	Total
2008	2.65 %	\$ 200,000	40,213	240,213
2009	3.00	205,000	34,487	239,487
2010	3.25	215,000	27,919	242,919
2011	3.50	220,000	20,575	240,575
2012	3.60	225,000	12,675	237,675
2013	3.75	230,000	4,312	234,312
Total		\$ 1,295,000	140,181	1,435,181

### Loan Payable

The District entered into a no interest loan agreement with Alliant Energy to replace a boiler. Repayment of this loan will be paid out of the Special Revenue, Physical Plant and Equipment Levy Fund. Details of the District's June 30, 2007, loan indebtedness is as follows:

Year Ending June 30,	Principal
2008	\$ 7,800
2009	1,950
Total	<u>\$ 9,750</u>

### Early Retirement

The District offers a voluntary early retirement plan to its administrators and certified employees. Eligible employees must be at least age fifty-five and employees must have completed thirty years of service to the District. Employees must complete an application which is required to be approved by the Board of Education. The District will pay the retiree an incentive equal to the retirees previous contract less the base salary times 75%. Early retirement benefits paid during the year ended June 30, 2007, totaled \$7,800. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund the early retirement incentives.

## **(7) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$196,627, \$178,996 and \$173,846 respectively, equal to the required contributions for each year.

## **(8) Risk Management**

Wayne Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$183,137 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(10) Construction Commitment**

As of June 30, 2007, costs of \$349,653 had been incurred for the window replacement project at the school. When the improvements are completed, the costs associated with the project will be added to the capital assets.

REQUIRED SUPPLEMENTARY INFORMATION

WAYNE COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2007

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 3,073,449	108,746	3,182,195	3,231,877	3,231,877	(49,682)
State sources	2,605,909	3,567	2,609,476	2,839,056	2,839,056	(229,580)
Federal sources	459,477	165,086	624,563	555,000	555,000	69,563
Total revenues	6,138,835	277,399	6,416,234	6,625,933	6,625,933	(209,699)
Expenditures:						
Instruction	4,086,544	0	4,086,544	4,809,257	4,809,257	722,713
Support services	1,681,129	0	1,681,129	1,951,655	1,951,655	270,526
Non-instructional programs	0	295,754	295,754	394,064	394,064	98,310
Other expenditures	842,165	0	842,165	1,105,765	1,105,765	263,600
Total expenditures	6,609,838	295,754	6,905,592	8,260,741	8,260,741	1,355,149
Excess(deficiency) of revenues over(under) expenditures	(471,003)	(18,355)	(489,358)	(1,634,808)	(1,634,808)	1,145,450
Other financing sources, net	1,640	5,735	7,375	1,500	1,500	5,875
Excess(deficiency) of revenues and other financing sources over(under) expenditures	(469,363)	(12,620)	(481,983)	(1,633,308)	(1,633,308)	1,151,325
Balance beginning of year	1,607,413	51,199	1,658,612	1,633,308	1,633,308	25,304
Balance end of year	\$ 1,138,050	38,579	1,176,629	0	0	1,176,629

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WAYNE COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

OTHER SUPPLEMENTARY INFORMATION

WAYNE COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2007

	Special Revenue Funds							Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Projects	Debt Service	Nonmajor Governmental Funds	Other Nonmajor Governmental Funds
ASSETS								
Cash and pooled investments	\$ 208,394	67,843	61,167	337,404	56,292	45,246		438,942
Receivables:								
Property tax								
Current year delinquent	2,530	0	1,008	3,538	0	4,940		8,478
Succeeding year	80,000	0	40,461	120,461	0	242,862		363,323
Due from other governments	0	0	0	0	137,064	0		137,064
TOTAL ASSETS	\$ 290,924	67,843	102,636	461,403	193,356	293,048		947,807
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	\$ 0	2,028	0	2,028	0	0		2,028
Deferred revenue								
Succeeding year property tax	80,000	0	40,461	120,461	0	242,862		363,323
	80,000	2,028	40,461	122,489	0	242,862		365,351
Fund balances:								
Reserved for Debt Service	0	0	0	0	0	50,186		50,186
Unreserved, undesignated	210,924	65,815	62,175	338,914	193,356	0		532,270
	210,924	65,815	62,175	338,914	193,356	50,186		582,456
TOTAL LIABILITIES AND FUND BALANCES	\$ 290,924	67,843	102,636	461,403	193,356	293,048		947,807

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.



WAYNE COMMUNITY SCHOOL DISTRICT  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2007

	Special Revenue Funds						Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Projects	Debt Service	Other Nonmajor Governmental Funds
REVENUES:							
Local sources:							
Local tax	\$ 99,945	0	41,570	141,515	325,711	195,205	662,431
Other	16,383	176,671	2,340	195,394	6,731	4,694	206,819
TOTAL REVENUES	116,328	176,671	43,910	336,909	332,442	199,899	869,250
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	4,815	0	0	4,815	0	0	4,815
Other instruction	0	172,627	0	172,627	0	0	172,627
Support services:							
Operation and maintenance of plant services	81,090	0	0	81,090	0	0	81,090
Other expenditures:							
Facilities acquisitions	0	0	26,101	26,101	377,264	0	403,365
Long-term debt:							
Principal	0	0	0	0	0	207,800	207,800
Interest and fiscal charges	0	0	0	0	0	47,863	47,863
TOTAL EXPENDITURES	85,905	172,627	26,101	284,633	377,264	255,663	917,560
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	30,423	4,044	17,809	52,276	(44,822)	(55,764)	(48,310)
OTHER FINANCING SOURCES(USES):							
Transfer in	0	0	0	0	0	57,800	57,800
Transfer out	0	0	(7,800)	(7,800)	(50,000)	0	(57,800)
TOTAL OTHER FINANCING SOURCES(USES)	0	0	(7,800)	(7,800)	(50,000)	57,800	0
EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES AND OTHER FINANCING USES	30,423	4,044	10,009	44,476	(94,822)	2,036	(48,310)
FUND BALANCE BEGINNING OF YEAR	180,501	61,771	52,166	294,438	288,178	48,150	630,766
FUND BALANCE END OF YEAR	\$ 210,924	65,815	62,175	338,914	193,356	50,186	582,456

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WAYNE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Secondary students fund	\$ 3,495	7,578	5,982	5,091
Activity tickets	0	6,095	1,024	5,071
FFA milk machine	(2,277)	600	(1,677)	0
Publication/plays fund	998	1,000	59	1,939
HS music club	(886)	3,656	2,258	512
JH music club	(1,149)	2,588	2,776	(1,337)
Cross country	61	275	258	78
Golf	0	385	899	(514)
Boys basketball	2,539	8,358	6,452	4,445
Football	0	8,704	6,657	2,047
Baseball	0	6,466	10,244	(3,778)
Boys track	1,405	1,158	1,252	1,311
Wrestling	0	6,377	7,908	(1,531)
Girls basketball	5,246	6,524	5,330	6,440
Volleyball	893	4,325	4,543	675
Softball	678	2,519	7,384	(4,187)
Girls track	671	50	1,987	(1,266)
Class of 2006	0	25	0	25
Class of 2007	0	5,600	5,397	203
Class of 2008	58	23	0	81
Alternative school class	381	585	802	164
Yearbook	5,909	6,711	6,620	6,000
NHS	217	233	243	207
FBLA	619	240	307	552
FFA	1,279	17,084	16,994	1,369
FCCLA	297	173	412	58
At risk student fund	540	2,759	2,471	828
HS student council	4,443	6,225	5,336	5,332
Art club	1,212	3,607	1,233	3,586
FEA club	1,200	0	0	1,200
Spanish club	373	13,673	13,678	368
HS tech club	536	0	0	536
Cheerleaders	75	4,008	3,403	680
JH/HS library club	127	1,912	1,663	376
Manufacturing tech	272	615	428	459
Physical education	0	1,293	575	718
HS math club	0	136	0	136
Teen leadership	750	274	303	721
JH clubs/organizations	2,087	13,757	10,110	5,734
JH student council	487	172	35	624
Elem. clubs/organizations	25,747	22,112	34,118	13,741
Elem. Library fund	1,488	3,401	1,936	2,953
Living classroom	2,000	0	0	2,000
Elem. afterschool program	0	5,395	3,227	2,168
Total	\$ 61,771	176,671	172,627	65,815

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WAYNE COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 2,407,816	2,558,653	2,481,816	2,114,979
Tuition	331,080	272,337	226,145	285,547
Other	334,553	302,274	217,051	240,285
State sources	2,605,909	2,556,382	2,656,082	2,718,332
Federal sources	459,477	329,186	392,968	543,827
Total	<u>\$ 6,138,835</u>	<u>6,018,832</u>	<u>5,974,062</u>	<u>5,902,970</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 2,407,415	2,065,878	2,152,571	2,102,497
Special instruction	891,771	722,350	578,603	912,150
Other instruction	787,358	776,339	725,208	487,735
Support services:				
Student services	73,139	114,978	128,081	74,557
Instructional staff services	139,379	157,969	70,438	71,042
Administration services	607,967	583,341	553,910	536,818
Operation and maintenance of plant services	578,212	494,302	437,642	481,703
Transportation services	282,432	341,056	231,389	229,625
Other support services	0	0	518	12,365
Other expenditures:				
Facilities acquisitions	403,365	279,757	9,242	26,162
Long-term debt:				
Principal	207,800	202,800	197,800	187,800
Interest and other charges	47,863	51,762	55,563	63,659
AEA flow-through	183,137	177,505	178,058	183,277
Total	<u>\$ 6,609,838</u>	<u>5,968,037</u>	<u>5,319,023</u>	<u>5,369,390</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WAYNE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2007

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DIRECT:			
DEPARTMENT OF EDUCATION:			
RURAL EDUCATION ACHIEVEMENT PROGRAM(REAP)	84.358	FY 07	\$ 13,619
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION (non-cash)	10.550	FY 07	13,363
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 07	31,534
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 07	113,744
SUMMER FOOD PROGRAM FOR CHILDREN	10.559	FY 07	6,445
			151,723
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	6854-G	129,250
STATE GRANTS FOR INNOVATIVE PROGRAMS	84.298	FY 07	1,143
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 07	3,385
INNOVATIVE EDUCATION PROGRAM STRATEGIES(TITLE V PROGRAM)	84.367	FY 07	33,821
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI A)	84.369	FY 07	6,142
READING FIRST STATE GRANTS	84.357	FY 07	30,000

WAYNE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2007

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT (CONTINUED):			
DEPARTMENT OF EDUCATION (CONTINUED):			
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 07	<u>30,897</u>
SPECIAL EDUCATION - STATE PROGRAM IMPROVEMENT GRANTS FOR CHILDREN WITH DISABILITIES (SECOND CHANCE READING)	84.323	FY 07	<u>6,422</u>
CHARITON COMMUNITY SCHOOL DISTRICT:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 07	<u>7,976</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
RURAL OUTREACH	93.912	FY 07	<u>131,893</u>
TOTAL			<u>\$ 559,634</u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Wayne Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**NOLTE, CORNMAN & JOHNSON P.C.**  
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117 West 3rd Street North, Newton, Iowa 50208-3040  
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Independent Auditor's Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards

To the Board of Education of the  
Wayne Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Wayne Community School District of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 6, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Wayne Community School District internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Wayne Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Wayne Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Wayne Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Wayne Community School District's financial statements that is more than inconsequential will not be prevented or detected by Wayne Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Wayne Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-07 is a material weakness.

#### Compliance and Other Matters

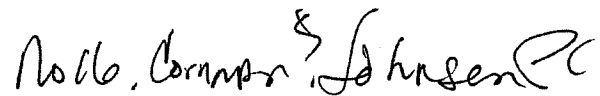
As part of obtaining reasonable assurance about whether Wayne Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Wayne Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Wayne Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Wayne Community School District and other parties to whom Wayne Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Wayne Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



NOLTE, CORNMAN & JOHNSON, P.C.

March 6, 2008

**NOLTE, CORNMAN & JOHNSON P.C.**  
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Independent Auditor's Report on Compliance with Requirements Applicable  
to Each Major Program and Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Board of Education of  
Wayne Community School District

Compliance

We have audited the compliance of Wayne Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Wayne Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Wayne Community School District's management. Our responsibility is to express an opinion on Wayne Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Wayne Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Wayne Community School District's compliance with those requirements.

In our opinion, Wayne Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Wayne Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Wayne Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Wayne Community School District's internal control over compliance.



Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-07 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-07 to be a material weakness.

Wayne Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the District's responses, we did not audit Wayne Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Wayne Community School District and other parties to whom Wayne Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 6, 2008

WAYNE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) Significant deficiencies in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
  - Individual:
    - CFDA Number 84.010 - Title I grants to Local Educational agencies
  - Clustered Programs:
    - CFDA Number 10.553 - School Breakfast Program
    - CFDA Number 10.555 - National School Lunch Program
    - CFDA Number 10.559 - Summer Food Program for Children
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Wayne Community School District did not qualify as a low-risk auditee.

WAYNE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

II-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

WAYNE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

CFDA Number 84.010: Title I grants to Local Educational agencies

Federal Award Year: 2007

U.S. Department of Education

Passed through the Iowa Department of Education

CFDA Number 10.553: School Breakfast Program

CFDA Number 10.555: National School Lunch Program and

CFDA Number 10.559: Summer Food Program for Children

Federal Award Year: 2007

U.S. Department of Agriculture

Passed through the Iowa Department of Education

III-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

WAYNE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting

- IV-A-07 Certified Budget - District disbursements for the year ended June 30, 2007, did not exceed the amount budgeted.
- IV-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-D-07 Business Transactions - Business transactions between the District and District officials are detailed as follows:
- | Name, Title and<br>Business Connection                       | Transaction<br>Description | Amount   |
|--------------------------------------------------------------|----------------------------|----------|
| Heather Fortune, Teacher<br>Spouse owns Fortune Construction | Construction               | \$23,880 |
- In accordance with Attorney's General Opinion dated November 9, 1976, the above transaction with the Board Member's spouse does not appear to present a conflict of interest.
- IV-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- IV-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- IV-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- IV-J-07 Financial Condition - We noted during the audit there were six deficit accounts in the Special Revenue, Student Activity fund totaling \$12,613.

Recommendation - The District should review purchase approval procedures for the Student Activity Fund and may wish to require additional approval before ordering goods or services from these accounts. The District should investigate alternatives to eliminate these deficit balances.

Response - We will try to clear negative accounts at year end except those accounts that have inventory to cover negative account balances.

Conclusion - Response accepted.